TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1810 - HB 1919

February 8, 2020

SUMMARY OF BILL: Decreases, from $500,000 to $100,000, the required amount of capital investment made by a business in an "adventure tourism district" to qualify for a franchise and excise job tax credit.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – $22,600/FY20-21
$45,200/FY21-22
$67,800/FY22-23 and Subsequent Years

Foregone State Revenue – $33,900/FY20-21
$67,800/FY21-22
$101,700/FY22-23 and Subsequent Years

Assumptions:

- Based on information provided by the Department of Revenue (DOR), the proposed legislation is estimated to affect five taxpayers a year.
- According to DOR, prior approval is required before the tax credit will be allowed and there is generally not a stated best interest of the state requirement for this tax credit.
- It is assumed that three of the five taxpayers would not be making a capital investment of at least $100,000, but less than $500,000, in an adventure tourism district in the absence of this legislation. Therefore, the revenue impact to the state associated with tax credits claimed for those jobs is considered to be foregone state revenue.
- It is further assumed that two of the five taxpayers would be making a capital investment of at least $100,000, but less than $500,000, in an adventure tourism district in the absence of this legislation. Therefore, the revenue impact to the state associated with tax credits claimed for those jobs is considered to be a decrease in state revenue.
- The average combined F&E tax liability of qualifying business enterprises is estimated to be approximately $22,600. Job tax credits may be used to offset up to 50 percent of total F&E tax liability, or an average of $11,300 per business enterprise per year ($22,600 x 50%).
- The four-year average of the annual tax credit provided per taxpayer in an adventure tourism district is $68,531 for businesses meeting the $500,000 threshold.

- The five businesses making capital investments between $100,000 and $500,000 that will now qualify for the tax credit are expected to average a tax credit equal to half of the current average, or $34,266 ($68,531 / 2).
- However, it is estimated that only $11,300 in tax credits can be utilized on average by qualified businesses, with the remainder of the credits carried over. As a result, the foregone state revenue in FY20-21 is estimated to be $33,900 (3 businesses x $11,300) and the decrease in state revenue in FY20-21 is estimated to be $22,600 (2 businesses x $11,300).
- In FY21-22 the impact on revenue is estimated to be the sum of the remainder of the previous year's credit recipients as well as the new FY21-22 credit recipients. Therefore, the foregone state revenue in FY21-22 is estimated to be $67,800 (6 businesses x $11,300) and the decrease in state revenue in FY21-22 is estimated to be $45,200 (4 businesses x $11,300).
- In FY22-23 and subsequent years the estimated foregone state tax revenue will be $101,700 (9 businesses x $11,300) and the decrease in state tax revenue will be $67,800 (6 businesses x $11,300).
- The remaining balance of tax credits for taxpayers who are four years out from receiving the credit is estimated to be minimal.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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